

Research Markets Today

16 May 2025

Events Round-Up

NZ: Monthly price indicator (y/y%), Apr: 2.4 vs. 2.0 prev.

AU: Employment change (k), Apr: 89 vs. 23 exp.

AU: Unemployment rate (%), Apr: 4.1 vs. 4.1 exp.

UK: GDP (q/q%), Q1: 0.7 vs. 0.6 exp.

EC: Industrial production (m/m%), Mar: 2.6 vs. 2.0 exp.

US: Retail sales (m/m%), Apr: 0.1 vs. 0.0 exp.

US: Retail sales ex auto, gas (m/m%), Apr: 0.2 vs. 0.3 exp.

US: Retail sales control grp (m/m%), Apr: -0.2 vs. 0.3 exp.

US: Empire manufacturing, May: -9.2 vs. -8.0 exp.

US: PPI ex food, energy (m/m%), Apr: -0.4 vs. 0.3 exp.

US: PPI ex food, energy (y/y%), Apr: 3.1 vs. 3.1 exp.

US: Philly Fed business outlook, May: -4.0 vs. -11.2 exp.

US: Initial Jobless Claims, wk to 10 May: 229 vs. 228 exp.

US: Industrial production (m/m%), Apr: 0.0 vs. 0.1 exp.

US: NAHB housing market index, May: 34 vs. 40 exp.

Good Morning

Bond and equity investors celebrated weaker US data, taking US rates lower and US equities higher. The currency market shows a risk-off tendency, with safe havens CHF and JPY outperforming against further weakness in the NZD and AUD.

US economic data were mostly weaker than expected on both inflation and activity and these economic releases had an impact on the market. The market is back to pricing about 55bps of Fed rate cuts this year, up from 49bps at yesterday's close. US Treasury yields are down 8-10bps across most of the curve, reversing higher rates over the previous session. The 2-year rate is down to 3.97% and the 10-year rate is down to 4.45%.

Equity market investors have put more emphasis on the lower rates backdrop than weaker growth and the squeeze on profit margins and the "pain trade" of higher equity prices continues. The S&P500 is currently up 0.4%.

The US PPI fell by 0.5% m/m, the largest decline in five years, while the core measure that excludes food and energy also fell, by 0.4% m/m. Both were well below expectations, but large upward revisions meant the annual figures were broadly in line. Combined with CPI

data, the core PCE deflator – the Fed's preferred inflation measure – will likely print at 0.1% m/m, following the flat print in March. While it's still too early to expect to see much impact from the tariffs, there was no initial sign that distributors were passing on extra costs, with margins likely being squeezed. Walmart's CFO said it planned to raise prices this month and early this summer, when tariff-affected merchandise hits store shelves. Walmart is already raising some prices as its suppliers pass through higher costs.

Headline, and ex-autos and gas, retail sales data were close to expectations, at flat and up 0.2% m/m respectively, but the control group measure – which feeds into GDP calculations – fell 0.2% m/m against an expected gain on 0.3%. This suggests a weak start to Q2, after sales were boosted in Q1 by some bringing forward of spending to avoid tariffs.

In second-tier data, the NAHB housing market index slumped 6pts to 34 in May, its joint-lowest reading since 2022, consistent with a weaker housing market. Initial jobless claims of 229k last week still signal a relatively stable and resilient labour market. Industrial production was flat in April, with manufacturing production falling 0.4% m/m. Regional Fed surveys for the NY and Philadelphia regions showed headline manufacturing indices still in negative territory.

UK Q1 GDP rose a slightly larger than expected 0.7% q/q, boosted by some front-loading of production ahead of tariffs, but economists warn that the underlying picture remains soft, with growth likely to be barely positive in Q2.

In a speech, Chair Powell was focused on the Fed's Framework Review and didn't comment on current policy settings. He indicated policymakers are considering changes to the framework that guides policy decisions, including how they think about shortfalls in US employment and approach their inflation target.

Oil prices are down 2½% after President Trump indicated the US was close to a deal in which Iran agrees to forgo nuclear weapons. While Trump didn't mention sanctions, the market sees a deal as paving the way for Iran to export more crude oil. Brent crude is down to USD64.50 per barrel.

In currency markets, a risk-off tone has prevailed. CHF and JPY have been the strongest performing currencies for the

day and overnight. USD/JPY has fallen 0.7% since this time yesterday to 145.70 and NZD/JPY is down more than 1% to 85.5, making it back-to-back days of falls of more than 1%. GBP is also on the stronger side of the ledger, supported by the stronger GDP data, and NZD/GBP is down 0.7% to 0.4415.

NZD and AUD are the weakest of the majors, both down 0.4% from this time yesterday. The NZD is down to 0.5870, and AUD probed sub 0.64 levels and NZD/AUD is flat around 0.9170. There was no sustained reaction to the cross to stronger-than-expected Australian employment data. The unemployment rate remained steady at 4.1% consistent with a resilient labour market.

The data had the market questioning the scope for the RBA to deliver rate cuts this year and this contributed to narrower NZ-Australian rate spreads yesterday. The NZ rates market also outperformed the US, seeing the 10-year NZGB spread compress to 11bps at the close. On a day of higher US and Australian rates the 10-year NZGB fell 1bp to 4.64%, with falls of 1-5bps across the curve. In the swaps market the 2-year rate fell 2bps to 3.17% and the 10-year rate was flat at 4.14%.

The data were ignored, but selected NZ monthly prices for April showed further upside in CPI inflation pressure

relative to forecasts, following on from the upward surprise in Q1, adding to the caution the RBNZ needs to employ in judging how much more to ease monetary policy.

On the economic calendar today is NZ's PMI, RBNZ's survey of expectations, and Japan Q1 GDP data. Tonight sees the release of US housing starts, building permits and the University of Michigan consumer survey.

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Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|-----------------------------------|--------|-------|-------|-------|
| NZ | Manufacturing PMI | Apr | 53.2 | 10:30 | |
| JN | GDP (q/q%) | Q1 | -0.1 | 0.6 | 11:50 |
| NZ | RBNZ 2yr inflation expectations | Q2 | 2.06 | 15:00 | |
| US | Housing starts (k) | Apr | 1363 | 1324 | 00:30 |
| US | Building permits (k) | Apr | 1450 | 1467 | 00:30 |
| US | U. of Mich. consumer sentiment | May | 53.4 | 52.2 | 02:00 |
| US | U. of Mich. 5-10yr inflation exp. | May | 4.4 | 4.4 | 02:00 |

Source: Bloomberg, BNZ

| Currencies | | | | | | Equities | | | | | | Commodities | | |
|----------------|--------|---------------------------------|-------------|--------|-----------------------|----------|---------------------|-----------|--------|-------|----------------------------------|--------------------|--------|---------|
| FX Majors | | Indicative overnight ranges (*) | | | Other FX | | Major Indices | | | | Price (Near futures, except CRB) | | | |
| | Last | % Day | Low | High | | Last | % Day | | Last | % Day | % Year | | Last | Net Day |
| NZD | 0.5873 | -0.4 | 0.5861 | 0.5911 | CHF | 0.8364 | -0.7 | S&P 500 | 5,915 | +0.4 | 11.4 | Oil (Brent) | 64.58 | -2.3 |
| AUD | 0.6403 | -0.4 | 0.6391 | 0.6443 | SEK | 9.743 | -0.1 | Dow | 42,301 | +0.6 | 6.0 | Oil (WTI) | 61.69 | -2.3 |
| EUR | 1.1176 | +0.0 | 1.1170 | 1.1228 | NOK | 10.428 | +0.5 | Nasdaq | 19,094 | -0.3 | 14.0 | Gold | 3228.5 | +1.3 |
| GBP | 1.3298 | +0.3 | 1.3263 | 1.3320 | HKD | 7.806 | -0.0 | Stoxx 50 | 5,412 | +0.2 | 6.1 | HRC steel | 895.0 | +0.4 |
| JPY | 145.69 | -0.7 | 145.42 | 146.25 | CNY | 7.207 | -0.0 | FTSE | 8,634 | +0.6 | 2.2 | CRB | 298.4 | -0.7 |
| CAD | 1.3970 | -0.1 | | | SGD | 1.297 | -0.4 | DAX | 23,696 | +0.7 | 25.6 | Wheat Chic. | 546.0 | +1.3 |
| NZD/AUD | 0.9172 | -0.1 | | | IDR | 16,529 | -0.2 | CAC 40 | 7,853 | +0.2 | -4.7 | Sugar | 17.67 | -2.2 |
| NZD/EUR | 0.5255 | -0.5 | | | THB | 33.23 | -0.6 | Nikkei | 37,756 | -1.0 | -3.0 | Cotton | 65.43 | +0.0 |
| NZD/GBP | 0.4416 | -0.7 | | | KRW | 1,398 | -0.3 | Shanghai | 3,381 | -0.7 | 8.3 | Coffee | 375.0 | +2.8 |
| NZD/JPY | 85.56 | -1.1 | | | TWD | 30.18 | -0.3 | ASX 200 | 8,297 | +0.2 | 5.3 | WM powder | 4380 | +0.6 |
| NZD/CAD | 0.8205 | -0.5 | | | PHP | 55.75 | -0.2 | NZX 50 | 12,881 | +0.8 | 9.8 | Australian Futures | | |
| NZ TWI | 68.53 | -0.5 | | | | | | VIX Index | 18.08 | -2.9 | +45.2 | 3 year bond | 96.33 | -0.06 |
| | | | | | | | | | | | | 10 year bond | 95.54 | 0.08 |
| Interest Rates | | | | | | | | | | | | | | |
| | Rates | | Swap Yields | | Benchmark 10 Yr Bonds | | NZ Government Bonds | | | | NZ BKBM and Swap Yields | | | |
| | Cash | 3Mth | 2 Yr | 10 Yr | | Last | Net Day | | Last | Chg | | Last | Chg | |
| USD | 4.50 | 4.85 | 3.76 | 3.93 | USD | 4.46 | -0.08 | 15-Apr-27 | 3.30 | -0.05 | BKBM 1-mth | 3.47 | -0.00 | |
| AUD | 4.10 | 3.80 | 3.47 | 4.32 | AUD | 4.53 | 0.06 | 15-May-28 | 3.53 | -0.04 | BKBM 3-mth | 3.36 | 0.01 | |
| NZD | 3.50 | 3.36 | 3.17 | 4.14 | NZD | 4.64 | -0.01 | 20-Apr-29 | 3.72 | -0.04 | 1 year | 3.14 | -0.01 | |
| EUR | 2.25 | 2.14 | 2.04 | 2.55 | GER | 2.62 | -0.08 | 15-May-30 | 3.94 | -0.03 | 2 year | 3.17 | -0.02 | |
| GBP | 4.25 | 4.58 | 3.83 | 4.13 | GBP | 4.66 | -0.05 | 15-May-31 | 4.15 | -0.02 | 3 year | 3.31 | -0.02 | |
| JPY | 0.48 | -0.03 | 0.70 | 1.22 | JPY | 1.48 | 0.02 | 15-May-32 | 4.33 | -0.02 | 5 year | 3.59 | -0.02 | |
| CAD | 2.75 | 4.97 | 2.39 | 2.90 | CAD | 3.16 | -0.10 | 14-Apr-33 | 4.44 | -0.02 | 7 year | 3.85 | -0.01 | |
| | | | | | | | | 15-May-34 | 4.54 | -0.02 | 10 year | 4.14 | 0.00 | |
| | | | | | | | | 15-May-35 | 4.64 | -0.01 | 15 year | 4.41 | 0.00 | |
| | | | | | | | | 15-May-36 | 4.74 | -0.02 | NZ Inflation-Indexed Bonds | | | |
| | | | | | | | | 15-May-37 | 4.85 | -0.02 | Sep-30 | 2.14 | 0.00 | |
| | | | | | | | | 15-May-41 | 5.09 | -0.02 | Sep-35 | 2.79 | 0.01 | |
| | | | | | | | | 15-May-51 | 5.27 | -0.02 | Sep-40 | 3.11 | 0.00 | |
| | | | | | | | | 15-May-54 | 5.30 | -0.02 | | | | |
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NZD exchange rates**16/05/2025 6:55 am Prev. NY close**

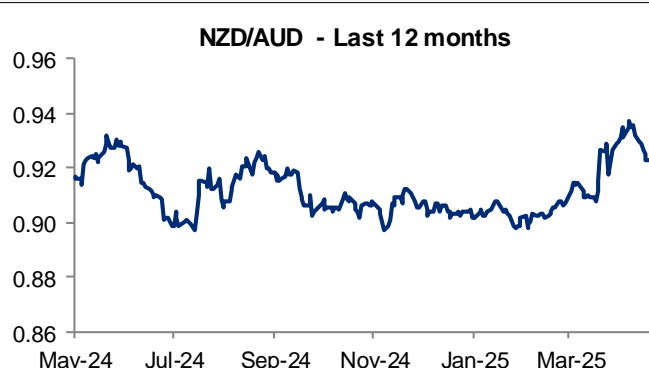
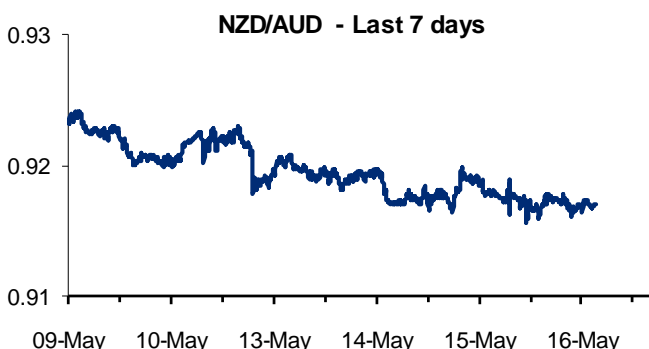
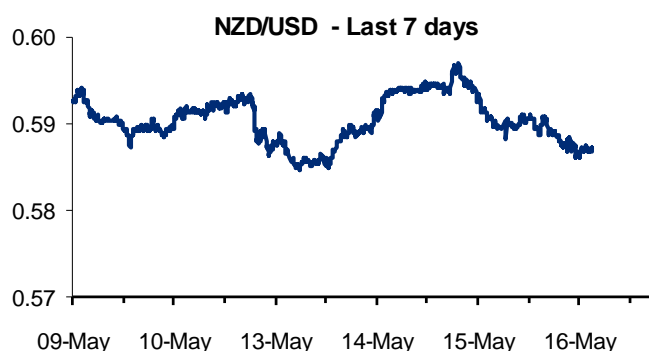
| | | |
|-----|---------|---------|
| USD | 0.5873 | 0.5899 |
| GBP | 0.4416 | 0.4448 |
| AUD | 0.9172 | 0.9177 |
| EUR | 0.5255 | 0.5279 |
| JPY | 85.56 | 86.57 |
| CAD | 0.8205 | 0.8249 |
| CHF | 0.4913 | 0.4969 |
| DKK | 3.9192 | 3.9387 |
| FJD | 1.3347 | 1.3440 |
| HKD | 4.5819 | 4.6056 |
| INR | 50.22 | 50.31 |
| NOK | 6.1206 | 6.1227 |
| PKR | 165.29 | 166.04 |
| PHP | 32.73 | 32.95 |
| PGK | 2.3756 | 2.3844 |
| SEK | 5.7167 | 5.7522 |
| SGD | 0.7615 | 0.7683 |
| CNY | 4.2343 | 4.2522 |
| THB | 19.59 | 19.59 |
| TOP | 1.3715 | 1.3844 |
| VUV | 70.90 | 71.22 |
| WST | 1.6225 | 1.6316 |
| XPF | 62.76 | 63.07 |
| ZAR | 10.5800 | 10.7773 |

NZD/USD Forward Points

| | BNZ buys NZD | BNZ sells NZD |
|----------|---------------------|----------------------|
| 1 Month | 6.39 | 6.60 |
| 3 Months | 18.14 | 18.74 |
| 6 Months | 37.67 | 38.67 |
| 9 Months | 53.21 | 55.38 |
| 1 Year | 64.19 | 68.00 |

NZD/AUD Forward Points

| | BNZ buys NZD | BNZ sells NZD |
|----------|---------------------|----------------------|
| 1 Month | 5.67 | 6.20 |
| 3 Months | 16.73 | 18.09 |
| 6 Months | 33.44 | 36.03 |
| 9 Months | 46.52 | 51.96 |
| 1 Year | 56.80 | 66.05 |



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